Booklet 9

Flexible Spending Accounts

Although these benefit descriptions include certain key features and brief summaries of King County regular employee and part-time Local 587 benefit plans, they are not detailed descriptions. If you have questions about specific plan details, contact the plan or Benefits and Retirement Operations. We've made every attempt to ensure the accuracy of this information. However, if there is any discrepancy between the benefit descriptions and the insurance contracts or other legal documents, the legal documents will always govern. King County intends to continue benefit plans indefinitely, but reserves the right to amend or terminate them at any time in whole or in part, for any reason, according to the amendment and termination procedures described in the legal documents. King County, as plan administrator, has the sole discretionary authority to determine eligibility for benefits and to construe the terms of the plans. This information does not create a contract of employment between King County and any employee.

Call 206-684-1556 for alternate formats.

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Overview

Flexible Spending Accounts (FSAs) allow you to set aside pretax dollars from your paycheck to pay for expenses not covered through your other benefits. When you put money into an FSA you don't pay federal or FICA (Social Security) taxes on it. As a result, your taxable income is reduced and your taxes are lower.

- Health Care FSAs allow you to set aside pretax dollars to pay for certain expenses not covered by your medical, dental and vision plans (for example, copays for office visits and the cost of orthodontia not fully paid by your dental plan).
- Dependent Care FSAs allow you to set aside pretax dollars to pay for eligible dependent care expenses for your child, disabled spouse or dependent parent while you and your spouse work.

Health Care and Dependent Care FSAs are also referred to as health care and dependent care Personal Choice Accounts by Associated Administrators, Inc., the provider that administers FSAs for King County.

Plan benefits are funded through employee before-tax salary reduction contributions, as permitted by Internal Revenue Code Section 125. In general, King County pays the administrative expenses of the plan to the extent those expenses are not paid from the plan.

Eligibility

You become eligible to participate in the FSA plan when:

- You first become eligible for benefits (see the Important Facts booklet)
- A qualifying change in status occurs (the type of change determines the type of FSA for which you may become eligible):
  - Change in your legal marital status due to marriage, legal separation, annulment, divorce or death of a spouse
  - Change in the number of your tax dependents due to birth, adoption or placement for adoption, or death of a dependent
  - Change in employment status for you, your spouse or dependent due to termination or commencement of employment, reduction or increase in work hours, switch from salaried to hourly-paid/union to non-union/part-time to full-time, strike or lockout, beginning or return from unpaid leave of absence or any other change which affects benefit eligibility
  - Change in the place of residence or work of you, your spouse or dependent which affects benefit eligibility
  - Change that causes a dependent to satisfy or cease to satisfy the requirements for coverage due to age, gain or loss of student status, marriage or any similar circumstances provided for in the benefit plans
  - Change due to certain judgments and court orders
  - Change in cost of dependent care due to change in provider
  - Significant change in coverage or cost due to employer benefit plan changes.

Enrolling

Flexible Spending Account information and enrollment forms are provided when you first become benefit-eligible, each year at open enrollment and by request from Benefits and Retirement Operations (see Resource Directory booklet). Enrollment forms include a Direct Deposit form so you can have FSA reimbursements directly deposited to a checking or savings account if you choose. (You may opt not to have FSA reimbursements direct deposited when you first enroll, but may set up direct deposit later by contacting AAI.)

If you decide to enroll in an FSA, return the forms to Benefits and Retirement Operations:

- Within 30 days of your benefit eligibility date if you're a new employee enrolling for the first time
- Within 30 days of a qualifying status change if you're an established employee enrolling for the first time
- By the open enrollment deadline if you're an established employee enrolling or reenrolling for the next plan/calendar year.

When you enroll, you enroll for the plan/calendar year (January 1-December 31) and must reenroll each year during open enrollment to continue participating. You may make changes to your FSAs during open enrollment, but changes outside open enrollment are restricted (see "Changes Outside Open Enrollment Are Restricted").

Appealing Eligibility

When you submit an FSA enrollment form, Benefits and Retirement Operations determines your eligibility based on the qualifying event (see "Eligibility") and timeliness of receiving your FSA enrollment form (see "Enrolling"). If you are determined to be ineligible, you will be contacted by Benefits and Retirement Operations.

If you are denied eligibility and disagree with the determination, call Benefits and Retirement Operations at 206-684-1556. A staff member may be able to resolve the issue.

If you have eligibility questions or believe you've had a claim denied because the plan indicates you or a family member is not covered, call Benefits and Retirement Operations at 206-684-1556. A staff member may be able to resolve the eligibility issue, eliminating the need to file a formal appeal.

If you'd rather communicate in writing or your eligibility issue can't be resolved with a phone call, you or your representative (referred to as "you" in the rest of the section) may file a written appeal. You have 30 days after receiving an eligibility determination notice (from the county or the plan) to submit a written appeal. It must include:

- Your name, address and a contact phone number
- Your employee ID (as it appears on your pay stub) or Social Security number
- Reason for the appeal.

Send eligibility appeals to:

King County Benefits and Retirement Operations
Exchange Building EXC-ES-0300
821 Second Avenue
Seattle WA 98104-1598

A Benefits and Retirement Operations staff member will review your appeal and notify you of the eligibility determination within 30 days. If your eligibility appeal is denied, the notice will include the plan provision behind the decision and advise you of your right to obtain free copies of relevant documentation.

Benefits and Retirement Operations has sole discretionary authority to determine participation under this plan; its decision is final and binding. In reviewing your eligibility appeal, Benefits and Retirement Operations applies the plan terms and uses its discretion in interpreting plan terms. Participation is allowed only if you meet the eligibility and participation requirements and Benefits and Retirement Operations determines you're entitled to participate.

If you believe your eligibility appeal was denied because relevant information or documents were not considered, Benefits and Retirement Operations offers the option of filing an eligibility appeal addendum within 30 days after receiving the eligibility appeal denial notice. The addendum must include the relevant information or documents. Send eligibility appeal addenda to the same address for eligibility appeals, but to the attention of the Benefits and Retirement Operations Manager.

The manager will review the additional information you provide, consult with appropriate county personnel and notify you in writing of the eligibility determination. The notice will indicate the specific plan provision behind the decision and advise you of your right to obtain free copies of related documentation.

It is the manager's exclusive right to interpret and apply the eligibility terms and exercise discretion to resolve all eligibility questions for county employees. Decisions of the manager are final and binding.

If you disagree with your eligibility appeal determination, you may file a grievance with your union or initiate legal action. Any legal action must be within two years of the date you or your family member is denied plan participation, or you forfeit your right to legal action.

How FSAs Work

You decide how much you want to contribute through payroll deduction to either a Health Care or Dependent Care FSA (or both) and indicate the amount(s) on the enrollment forms you return to Benefits and Retirement Operations. When Benefits and Retirement Operations receives the form it verifies your eligibility and transmits the information to Payroll (so deductions can be taken) and a third party administrator, Associated Administrators Inc. AAI sets up your FSA and administers it for King County.

As you incur eligible expenses, you submit Reimbursement Claim Forms (provided when you enroll and available from AAI), receipts and other required documentation to AAI, and AAI reimburses you from your account. Generally, reimbursement requests are processed within 48 hours of receipt. If the reimbursement is approved, a check is issued or direct deposit transmitted the night your request is processed and an explanation of reimbursement is mailed to your home.

If you want reimbursements direct deposited, you may complete the Direct Deposit Request form included with the FSA enrollment forms (see "Enrolling" in this booklet).

You may submit reimbursement requests for expenses incurred during the calendar year any time through March 31 of the following year (requests must be received by AAI no later than March 31), and you may submit multiple bills or receipts with one Reimbursement Claim Form.

Health Care FSAs

► FSA versus Federal Income Tax Deduction

The IRS allows you to take a federal income tax deduction for certain eligible health care expenses if they exceed 7.5 % of your adjusted gross income, or you may set aside from $300 (minimum) to $6,000 (maximum) in pretax dollars to pay for these same expenses from a Health Care FSA (also called a Medical Care FSA or health care Personal Choice Account). For most people, the Health Care FSA makes the most sense, but consult a tax advisor to be sure.

► Dependent Eligibility

Generally, you may use a health care FSA to reimburse expenses for any family member who qualifies for coverage under your benefit plans. However, Internal Revenue Code Section 152 restricts use of a Health Care FSA to reimburse expenses for a domestic partner and domestic partner's children unless they live with you as members of your household and you provide over half their support during the calendar/plan year.

Internal Revenue Code Section 152 also allows you to reimburse expenses for:

- Any child, grandchild, stepchild, brother, sister, stepbrother, stepsister, parent, grandparent, stepparent, niece, nephew, aunt, uncle, son-in-law, daughter-in-law, mother-in-law, father-in-law, brother-in-law or sister-in-law who receives over half his/her support from you during the calendar/plan year
- Any person not related to you but who lives with you as a member of your household and receives over half his/her support from you during the calendar/plan year.

If you reimburse expenses from a Health Care FSA for any dependents other than your spouse or dependent children, you may be required to provide an affidavit certifying them as eligible dependents based on the criteria described above.

► Eligible Expenses

Here is a partial list of health care expenses eligible for reimbursement through a Health Care FSA. Consult with your tax advisor, IRS Publication 502 or AAI (eligible expenses are listed on the AAI website; see Resource Directory booklet) if you have any questions. (The IRS publication references insurance premiums and long term care insurance as eligible deductible expenses on an individual tax return, but they are not eligible for Health Care FSA reimbursement.)

- Acupuncture
- Ambulance
- Artificial limbs
- Birth control pills, condoms, spermacides, pregnancy/ovulation kits
- Braille books and magazines
- Car controls for a disabled person
- Care for a mentally disabled child
- Chiropractor fees
- Christian Science practitioner fees
- Coinsurance/copays
- Contact lenses and contact cleaning solutions
- Cosmetic procedures to correct a problem arising from a medical condition
- Crutches
- Deductibles for medical, dental and vision plans
- Dental fees
- Dentures
- Diagnostic fees
- Disabled person's cost for special home
- Drug addiction treatment
- Eyeglasses
- Eye exams
- Fertility treatment
- Hearing aids and batteries
- Home improvements for medical reasons
- Hospital bills
- Hypnosis for treatment of an illness
- Insulin
- Laboratory fees
- Learning disability
- Life fee to retirement home for medical care
- Maternity care
- Naturopathic treatment
- Naturopathic remedies (if prescribed by physician for medical condition)
- New baby expenses for medical conditions
- Obstetrical services
- Operations
- Optometrist
- Orthodontics (non-cosmetic purposes)
- Orthopedic shoes
- Oxygen
- Physician fees
- Prescription drugs
- Psychiatric care
- Psychologist fees
- Radial keratotomy
- Routine physicals
- Seeing-eye dog and its upkeep
- Skilled nurse fees (including board and Social Security taxes you pay)
- Smoking cessation
- Spa/pool equipment prescribed by physician and allowed by the IRS
- Special schools for mentally impaired or physically disabled person
- Telephone designed for hearing impaired person
- Television/hearing impaired equipment
- Therapeutic care for drug and alcohol addiction
- Therapy received as medical treatment
- Transportation expenses for medical purposes
- Tuition at special school for disabled person
- Tuition fee portion that goes for medical care
- Vaccines
- Weight loss programs (if prescribed by physician for medical condition)
- Well-baby and well-child care
- Wheelchair
- Wigs required for medical purposes
- X-rays

► Ineligible Expenses

Here is a partial list of health care expenses not eligible for reimbursement through a Health Care FSA. Again, consult with your tax advisor or AAI (see Resource Directory booklet) if you have any questions.

- Cosmetic procedures for non-medical reasons
- Diaper services
- Divorce expenses (even if recommended by a physician)
- Domestic help fees (for services of a non-medical nature)
- General counseling (e.g. family, marital or couple)
- Health club programs, including fitness clubs and gyms
- Health insurance premiums
- Lens replacement insurance
- Long term care insurance premiums and expenses
- Maternity clothes
- Nonprescription over-the-counter drugs, medicines, vitamins and other remedies not prescribed by a physician
- Parking fees
- Physical therapy treatments for general well-being

► Expense Estimator

All eligible expenses for you, your spouse and your eligible dependents are reimbursable from your Health Care FSA. Complete this worksheet to estimate eligible health care expenses not covered by your other benefits, then use AAI's online tax calculator (www.aai-pca.com/ee_cyts.htm) to calculate your potential tax savings.

Medical Expenses	Estimated Plan Year Expenses
Copays	$_____
Deductibles	$_____
Physical exams	$_____
Prescription drugs	$_____
Surgical fees	$_____
X-ray or lab fees	$_____
Other medical expenses	$_____
Dental Expenses	
Copays	$_____
Deductibles	$_____
Dentures	$_____
Examinations	$_____
Orthodontia	$_____
Restorative work (crowns, caps, bridges)	$_____
Teeth cleaning	$_____
Other dental expenses	$_____
Total Column 1	**$**_____

Vision Expenses	Estimated Plan Year Expenses
Copays	$_____
Deductibles	$_____
Eye exams	$_____
Prescription contact lenses	$_____
Contact lens supplies	$_____
Prescription eyeglasses or sunglasses	$_____
Other Expenses	
Acupuncture, chiropractors, naturopaths	$_____
Hearing aids	$_____
Immunization fees	$_____
Psychiatrist, psychologist, counseling (allowed for treatment of specific physical or mental disorder, e.g. depression, alcohol or drug treatment; diagnosis is necessary for reimbursement)	$_____
Total Column 2	**$**_____

Total Column 1 $_____ + Total Column 2 $_____ = Total Estimated Expenses $_____

► Expense Reimbursement

How eligible expenses are reimbursed from a Health Care FSA depends on the type of expense you have: partially covered by health insurance, not covered by health insurance, or orthodontia expenses.

For expenses partially covered by insurance, you file a claim with your health plan. When you receive your Explanation of Benefits (EOB), you see how much the plan paid and the remaining balance due. You then request reimbursement for the remaining balance. Complete the Reimbursement Claim Form available from AAI (see Resource Directory booklet), attach your EOB, and fax or mail the information to AAI.

For expenses not covered by insurance, complete the claim form and attach your itemized receipt(s) for the expense. Receipt(s) must show date of service, cost, service performed and provider of service. Cancelled checks, credit card receipts or statements showing only "balance due" or "payment on account" cannot be accepted. Fax or mail the information to AAI.

For orthodontia services, you need to provide a contract or letter from your orthodontist to AAI so AAI can pay according to the contract. Only the cost incurred during the current calendar year is eligible. For example, if the total cost of orthodontia services is $4,000 and the treatment is expected to take 24 months, only $2,000 is eligible each calendar year. Complete a claim form and attach a statement from the orthodontic office indicating the dates of service (for example, January 1 through December 31) and the cost of the treatment for the calendar year. Fax or mail the information to AAI.

For monthly orthodontia expenses, complete a claim form and attach a receipt or invoice showing payment amount, date of service, a notation that the payment is for orthodontia services, and the provider of services. Fax or mail the information to AAI.

When your Health Care FSA reimbursement request is received and approved, you are reimbursed for your eligible expenses up to the maximum amount you elected, minus any previous reimbursements made during the calendar year. Even if your reimbursement request is greater than your current account balance, you will be reimbursed for the total amount of your request, up to the total Health Care FSA contribution you elected for the calendar year.

► If Reimbursement is Denied

If your claim for reimbursement is denied, AAI will notify you in writing within 30 days of your request, explaining the specific reasons for the denial, your right to appeal and your right to obtain free copies of documentation related to the decision. If matters beyond AAI's control require more time, the review period may be extended up to 15 days and you'll be notified of the extension before the initial 30-day period ends.

If your claim is denied, you (or your representative) may submit a written appeal to:

Appeal Coordinator
Associated Administrators Inc.
PO Box 3199
Portland OR 97208-3199

Your written appeal must be filed within 180 days after receiving the initial notice of denial from AAI. You must indicate the reason for your appeal and may include any relevant information or documents.

AAI will give you a written decision within 60 days of receiving your appeal, indicating the specific plan provision behind the decision and advising you of your right to obtain free copies of related documentation.

If the appeal is denied, you may pursue legal remedies, but you or your representative must exhaust this claim appeal process first. If legal action is taken, the suit must be filed within two years after the event the claim is based on.

Dependent Care FSAs

► FSA versus Federal Income Tax Deduction

If you work full- or part-time and have children, a disabled spouse, or elderly dependent parents and use dependent care services on a regular basis, you may take an income tax credit for your dependent care expenses or you may set aside pretax dollars to pay for these same expenses from a Dependent Care FSA (also called a dependent care Personal Choice Account).

The minimum you may contribute to a Dependent Care FSA is $300 per calendar year. The maximum you may contribute depends on your family situation. If more than one of the following situations applies to you, your maximum contribution is the lesser of the two:

- If you are a working single parent, you may contribute up to $5,000 per calendar year
- If you are married and filing a joint income tax return, you may contribute up to $5,000 per calendar year; if your spouse also has access to a Dependent Care FSA, your combined limit is $5,000
- If you are married and filing separate income tax returns, you may contribute up to $2,500 per calendar year
- If you are married and your spouse is a full-time student or disabled (defined by the IRS as physically or mentally incapable of self-care), you may contribute up to $3,000 per calendar year for one dependent, or up to $6,000 per calendar year for two or more dependents
- If you are married and your spouse earns less than $5,000, you may contribute up to the amount of your spouse's annual income.

For additional information, contact AAI (see Resource Directory booklet). To determine whether the tax credit or a Dependent Care FSA (or combination of both) is best for you, consult a tax advisor.

► Your Eligibility

To qualify, you must be at work while your eligible dependents receive care. You must also meet one of the following eligibility requirements:

- You are a single parent
- You have a working spouse
- Your spouse is a full-time student at least 5 months during the calendar year while you are working
- Your spouse is mentally or physically unable to care for him/herself
- You are divorced or legally separated and have custody of your child most of the time (even though your former spouse may claim the child for income tax purposes).

► Dependent Eligibility

Eligible dependents for this plan include children, spouse, and dependent parents:

- Your child under age 13 of whom you have custody and for whom you are entitled to claim a deduction on your federal tax return. For children of divorced or separated parents, only the parent with custody can consider the child an eligible dependent under this plan.
- Incapacitated parent residing in your household full time
- Your child of any age who is physically or mentally unable to care for him/herself
- Your spouse who is physically or mentally unable to care for him/herself.

► Eligible Expenses

The following types of care are reimbursable from a Dependent Care FSA:

- Care provided inside or outside your home by anyone other than your spouse, a person you list as your dependent for income tax purposes, or one of your children under age 19
- A dependent care center or child care center (if the center cares for more than six children, it must comply with all applicable state and local regulations)
- A housekeeper, au pair or nanny whose services include, in part, providing care for a qualifying dependent
- Adult care for an incapacitated spouse or parent; this includes only the day care expenses; nursing/medical care does not qualify for reimbursement through a Dependent Care FSA, but may qualify under a Health Care FSA.

To qualify for reimbursement, you must provide your dependent care provider's tax ID number, Social Security number or license number on your federal tax return. If you fail to do so, your Dependent Care FSA reimbursements may be reclassified as taxable income by the IRS. You must still complete IRS Form 2441 when reporting taxes at the end of each calendar year.

You are responsible for making sure the expenses you submit for reimbursement are considered eligible expenses by the IRS. If you're not sure whether an expense is eligible, consult a tax advisor or contact AAI.

► Ineligible Expenses

Generally, expenses for overnight camps and education (including kindergarten) are generally not reimbursable. However, if the cost of tuition and dependent care can be separated, the itemized cost of the dependent care is reimbursable. Consult a tax advisor.

► Expense Reimbursement

To get reimbursed from a Dependent Care FSA, complete the Reimbursement Claim Form (provided when you enroll and available from AAI), attach any appropriate receipts, or have the dependent care provider sign the claim form instead of a receipt. Fax or mail the information to AAI.

If you submit a reimbursement request for an amount that is more than your account balance, you are reimbursed up to the amount you currently have in your account. When future contributions are made to your account, you automatically receive another reimbursement, until your total claim amount has been reimbursed or you reach your calendar year election amount.

► If Reimbursement is Denied

If your claim for reimbursement is denied, AAI will notify you in writing within 30 days of your request, explaining the specific reasons for the denial, your right to appeal and your right to obtain free copies of documentation related to the decision. If matters beyond AAI's control require more time, the review period may be extended up to 15 days and you'll be notified of the extension before the initial 30-day period ends.

If your claim is denied, you (or your representative) may submit a written appeal to:

Appeal Coordinator
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Your written appeal must be filed within 180 days after receiving the initial notice of denial from AAI. You must indicate the reason for your appeal and may include any relevant information or documents.

AAI will give you a written decision within 60 days of receiving your appeal, indicating the specific plan provision behind the decision and advising you of your right to obtain free copies of related documentation.

If the appeal is denied, you may pursue legal remedies, but you or your representative must exhaust this claim appeal process first. If legal action is taken, the suit must be filed within two years after the event the claim is based on.

Other Considerations

► Health Care and Dependent Care FSAs Don't Mix

Health Care and Dependent Care FSAs are separate. The money you allocate for one cannot be used for the other and you cannot transfer dollars between accounts.

► Use It or Lose It

You may request reimbursement from an FSA through March 31 of the following year for eligible expenses incurred during the plan/calendar year (your request must be received by AAI no later than March 31). Any money left in your FSA after March 31 is forfeited by IRS regulations.

► FSA Contributions Can Affect Social Security

Because you and the county don't pay Social Security (FICA) taxes on the money you contribute to an FSA, your future Social Security benefits may be reduced slightly. However, you may find that the tax savings gained through participation in an FSA outweighs any loss in benefits. Consult a tax advisor.

► Changes Outside Open Enrollment are Restricted

The election you make when you enroll for an FSA remains in effect for the entire calendar year. You may only change your elections (begin, increase, decrease or stop contributions to an FSA) during open enrollment (for the following plan/calendar year) or when you have a qualifying status change:

- Change in your legal marital status due to marriage, legal separation, annulment, divorce or death of a spouse
- Change in the number of your tax dependents due to birth, adoption or placement for adoption, or death of a dependent
- Change in employment status for you, your spouse or dependent due to termination or commencement of employment, reduction or increase in work hours, switch from salaried to hourly-paid/union to non-union/part-time to full-time, strike or lockout, beginning or return from unpaid leave of absence or any other change which affects benefit eligibility
- Change in the place of residence or work of you, your spouse or dependent which affects benefit eligibility
- Change that causes a dependent to satisfy or cease to satisfy the requirements for coverage due to age, gain or loss of student status, marriage or any similar circumstances provided for in the benefit plans
- Change due to certain judgments and court orders
- Change in cost of dependent care due to change in provider
- Significant change in coverage or cost due to employer benefit plan changes.

You have 30 days from the date of a qualifying status change to modify your FSA election, and the change must be consistent with and on account of the status change. To make the change, return a Status Change Form to Benefit and Retirement Operations. The form is provided when you enroll and available from AAI and Benefits and Retirement Operations (see Resource Directory booklet).

► If You Leave Employment

If you leave employment you may continue participating in your Health Care FSA (contributing to the account and requesting reimbursements) through the end of the calendar year as long as you elect to continue the FSA

under COBRA or retiree benefits. You have until March 31 of the following year to submit reimbursement requests for expenses incurred during the previous calendar year while under COBRA or retiree benefits.

If you leave employment but don't continue your Health Care FSA under COBRA or retiree benefits, your participation in your FSA ends the day you leave employment. You have until March 31of the following year to submit reimbursement requests for expenses incurred through the date you leave.

If you leave employment your participation in your Dependent Care FSA ends the day you leave employment. You have until March 31of the following year to submit reimbursement requests for expenses incurred through the date you leave.